Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the matter of:	)	
	)	
Universal Service Support Mechanism	)	
	)	CC Docket No. 96-45
Ex Parte Comments on Proposed Fourth Quarter 2004	)	
Universal Service Contribution Factor (DA 04-2976)	)	
	)	

The following comments are submitted in response to the Proposed Fourth Quarter 2004 Universal Service Contribution Factor (DA 04-2976) released by the Wireline Competition Bureau ("Bureau") on September 16, 2004.

These comments represent the opinions of state E-Rate coordinators from approximately 40 states. Representatives of SECA typically perform first-level, face-to face, E-Rate training for applicants and service providers and act as intermediaries between the applicant and service provider communities, the Administrator, and the Commission. Further, several members of SECA administer and are the applicants for large statewide networks and consortia. SECA members are thoroughly familiar with E-Rate regulation, policy and outreach at many levels of the program, from administrator to applicant. Of all E-Rate connected groups, Alliance members most closely work with grassroots applicants and are most aware of the effects of E-Rate on the daily operations of schools and libraries across the nation.

Specifically, we are concerned that the Bureau's proposal to apply $150 million from the collections carried over from previous quarters to lower the contribution required for the schools and libraries support mechanism for the upcoming quarter is not in the best long term interest of the program. We believe that reducing contributions at the same time that E-rate funding has been suspended due to a change in accounting standards is inappropriate and will be detrimental to the program. Unless the Commission takes action regarding the projections of demand and the proposed contribution factor by September 30th, the proposal will be deemed approved[1] and $150 million in needed E-rate funding will be lost.[2]

[1] If the Commission takes no action regarding the projections of demand and administrative expenses and the proposed contribution factor within the 14-day period following release of this Public Notice (September 16th), they shall be deemed approved by the Commission

[2] Unless recaptured by future contributions that exceed the $562.5 million quarterly amount needed to maintain the $2.25 billion annual funding.

COMMENTS

As of October 1, 2004, USAC has been directed by the FCC to adopt government accounting standards. We have been given to understand that the primary effect of this change is to limit existing and new E-rate commitments to cash on hand. Although current cash balances are large, so are the remaining commitment liabilities from earlier funding years (and from the first series of waves for FY 2004). As a result, the SLD suspended the issuance of new Funding Commitment Decision Letters ("FCDLs").on August 3rd. The only indication that the SLD has given as to how much longer the suspension will last is "indefinitely". Presumably, no new commitments for FY 2004 or earlier years can be made under the new accounting standards until: (a) committed, but undisbursed, funds can be reduced (a path that the SLD is pursuing vigorously); (b) new fund contributions are received; and/or (c) different accounting practices are approved.

The current funding suspension is having severe effects among those schools and libraries whose applications were by sheerest chance caught in this unforeseen suspension of funding. Approximately one half of all applicants are currently without assurance of funding for this school year. This is causing severe cash flow problems and/or project delays for many schools and libraries; some are without services which have been funded in previous years and on which educational programs are based. Even those whose applications have been processed internally by the SLD cannot be notified that funding will or will not become available. The suspension is generating enormous uncertainty among applicants who must prepare for the FY 2005 funding cycle.

With the SLD struggling to overcome cash restrictions under the new government accounting standards, it appears highly inappropriate for the Bureau to propose another reduction in program contributions. The stated rationale for the reduction seems to be based on the previously used, non-government accounting standards, rather than on the new government standards that have led to the funding suspension.

SUMMARY

SECA believes that the proposed reduction in USF contributions, at a time when the E-rate program has suspended new commitments pending resolution of cash and/or accounting problems, is detrimental to both the short- and long-term prospects of the program and to the schools and libraries that rely upon it.

We urge the Commission to review and reverse the proposed E-rate funding reduction before the proposal is deemed automatically approved on September 30th.

Respectfully submitted,

On behalf of the
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Submitted September 26, 2004